

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 3, 2014

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 3, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Dr. Wayne Wilbright, CEO
LSU Health Sciences Center -
Health Care Services Division,
Louisiana State University System

Dear Senator Alario, Representative Kleckley, and Dr. Wilbright:

This report includes the results of the procedures we performed at LSU Health Sciences Center - Health Care Services Division (HCSD) for the period from July 1, 2013 through June 30, 2014, to evaluate its accountability over public funds. The procedures are a part of our audit of the Louisiana State University System's financial statements and the Single Audit of the State of Louisiana for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of HCSD for their assistance during our work.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

BH:EFS:THC:aa

HCSD 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

LSU Health Sciences Center – Health Care Services Division

December 2014



Audit Control # 80140040

Introduction

As a part of our audit of the Louisiana State University System (System) financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014, we performed procedures at LSU Health Sciences Center - Health Care Services Division (HCSD) to provide assurances on financial information that is significant to the System's financial statements; to evaluate the effectiveness of HCSD's internal controls over financial reporting and compliance; and to determine whether HCSD complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

HCSD is a part of the Louisiana State University System and consists of an administrative office and one charity hospital, Lallie Kemp Regional Medical Center in Independence. HCSD's mission is to provide high-quality medical care, develop medical and clinical manpower through accredited residency and other health education programs, and to work cooperatively with other health care providers and agencies to improve health outcomes.

Results of Our Procedures

Follow-Up on Prior-Year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated December 18, 2013. We determined that management has resolved the prior-year findings related to the overcharging for patient services and the misappropriation of drugs at University Medical Center in Lafayette, and the inadequate maintenance of admit/registration documentation at W. O. Moss Regional Medical Center.

Current-Year Finding

Failure to Report Construction Costs

HCSD failed to report approximately \$141.5 million in construction costs associated with the construction of the new University Medical Center in New Orleans during fiscal year 2014, resulting in a misclassification of assets and net position in HCSD's Annual Fiscal Report (AFR).

During fiscal year 2013, the funds were received and restricted for the purpose of construction on the new hospital. During fiscal year 2014, the restricted funds were expended by the Division of Administration's Office of Facility Planning and Control (OFPC) for construction but were not properly identified and capitalized (shown as capital assets) by HCSD in its AFR. After we brought this matter to HCSD management's attention, management immediately worked with OFPC to determine the \$141.5 million should have been capitalized and an audit adjustment was made to correct the AFR.

Management should ensure that the report containing OFPC construction expenses is thoroughly reviewed to identify whether costs should be capitalized or expensed, and properly record those construction costs that meet HCSD's capitalization policy criteria in its AFR. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Financial Statements - Louisiana State University System

As a part of our audit of the System's financial statements for the year ended June 30, 2014, we considered HCSD's internal controls over financial reporting and examined evidence supporting certain account balances and classes of transactions as follows:

Statement of Net Position

Assets - Cash and cash equivalents, due from State Treasury, capital assets

Liabilities - Due to State Treasury, other postemployment benefits payable, unearned revenues

Net Position - Net investment in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted

Statement of Revenues, Expenses, and Changes in Net Position

Revenues - Hospital income and capital appropriations

Expenses - Hospital expenses and other non-operating expenses

Our audit included tests of HCSD's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we reported a finding related to failure to report construction costs. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit of the State of Louisiana for the year ended June 30, 2014, we performed procedures on HCSD's Summary Schedule of Prior Federal Audit Findings (Schedule

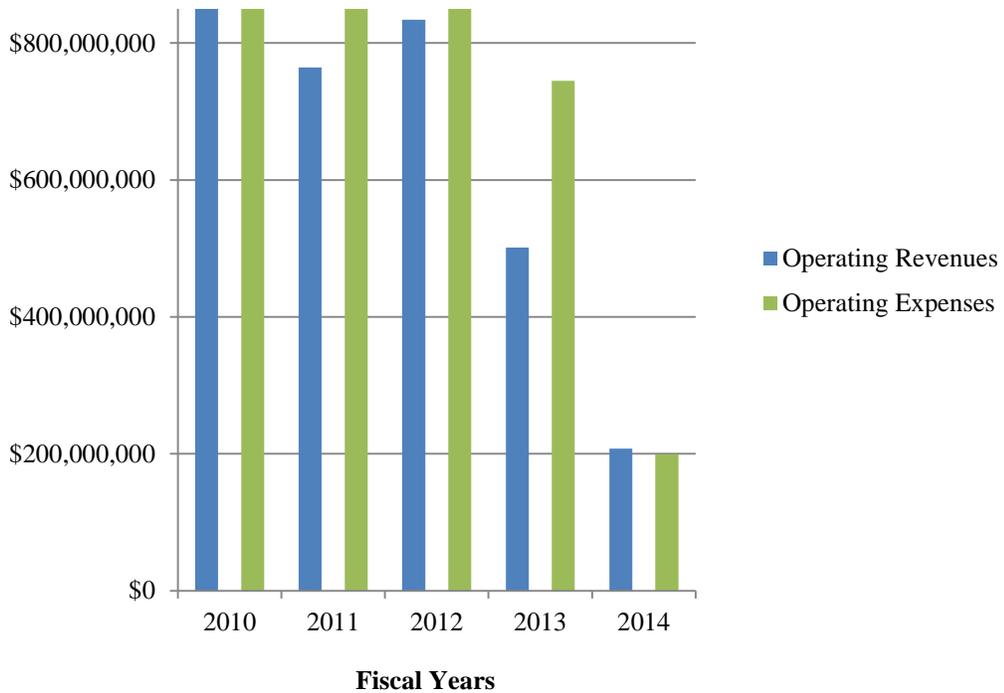
8-3), as required by the Office of Management and Budget Circular A-133. These procedures included evaluating the information presented for each finding included in Schedule 8-3. Based on the results of our procedures, the Schedule 8-3 prepared by HCSD accurately represented the status of the prior-year findings.

Trend Analysis

We compared the most current- and prior-year financial activity using HCSD’s annual fiscal reports and/or system-generated reports and obtained explanations from HCSD management for any significant variances. We also prepared an analysis of operating revenues and expenses (Exhibit 1) over the last five years and prepared a breakdown of fiscal year 2014 operating revenue (Exhibit 2).

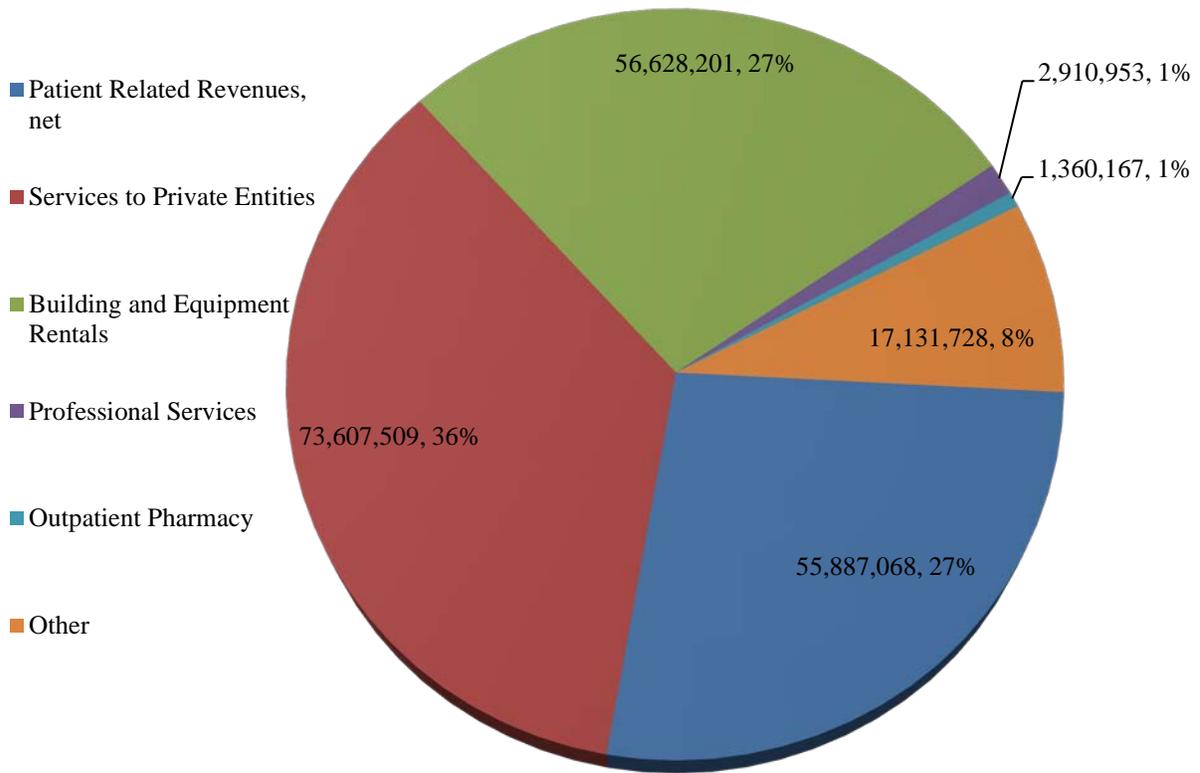
In analyzing the revenue trend of HCSD over the past five years, the effect of privatization has caused revenue and expenses to decrease significantly. HCSD’s largest source of income now is generated by providing services and building and equipment lease rentals to the private partners now operating the former public hospitals.

**Exhibit 1
Five-Year Operating Revenue and Expense Trend**



Source: Fiscal year 2010-2014 HCSD Annual Fiscal Reports

**Exhibit 2
Fiscal Year 2014 Operating Revenues**



Source: Fiscal year 2014 HCSD Annual Fiscal Report

The recommendation in this letter represents, in our judgment, that which would likely bring about beneficial improvements to the operations of HCSD. The nature of the recommendation, its implementation cost, and its potential impact on the operations of HCSD should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

APPENDIX A: MANAGEMENT'S RESPONSE



October 28, 2014

Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Failure to Report Construction Costs

Dear Mr. Purpera:

The LSU Health System, Health Care Services Division (HCSD) concurs with the audit finding, Failure to Report Construction Costs, for the Fiscal Year Ended June 30, 2014.

Corrective Action Plan

HCSD will work with the Office of Facility Planning & Control (OFPC) in FY2015 and future years to identify all expenditures made by the OFPC on behalf of HCSD and properly record the expenditures in the Annual Financial Report in accordance with HCSD's capitalization policy criteria.

Person Responsible for Corrective Action Plan

Mark Robichaux, HCSD Comptroller, is the person responsible for the corrective action plan. If further information is needed, he may be contacted by phone at (225) 354-3771 or by e-mail at mrobic2@lsuhsc.edu.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lanette Buie". The signature is fluid and cursive.

Lanette Buie
Deputy Chief Executive Officer

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at LSU Health Sciences Center - Health Care Services Division (HCSD) for the period from July 1, 2013 through June 30, 2014 to provide assurances on financial information significant to the Louisiana State University System (System) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the System's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2014.

- We evaluated HCSD's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to HCSD.
- Based on the documentation of HCSD's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on HCSD's account balances and classes of transactions to support the opinion on the System's financial statements.
- We performed procedures on HCSD's Summary Schedule of Prior Federal Audit Findings (Schedule 8-3) for the year ended June 30, 2014, to support the 2014 Single Audit.
- We compared the most current- and prior-year financial activity using HCSD's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from HCSD management for significant variances.

The purpose of this report is solely to describe the scope of our work at HCSD and not to provide an opinion on the effectiveness of HCSD's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.

We did not audit or review HCSD's Annual Fiscal Report and, accordingly, we do not express an opinion on that report. HCSD's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.